

Department of Higher Education and Training

Recommended

Policy on Unauthorised, Irregular, Fruitless and Wasteful

Expenditure for Public CET Colleges



Free State
CET College
Community Education
and Training College

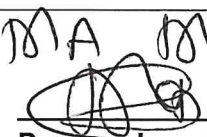

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

TABLE OF CONTENTS		PAGE
1.	Legislative framework and best practice regulations	4
2.	Purpose	4
3.	Definitions, acronyms and abbreviations	4
4.	Scope	5
5.	Principles of irregular expenditure	5
6.	Condonation of irregular expenditure	6
7.	Principles of fruitless and wasteful expenditure	7
8.	Principles of unauthorised expenditure	8
9.	Expenditure classified as both unauthorised and irregular	9
10.	Recovery of expenses from officials liable in law	9
11.	Appointment of loss control function	9
12.	Procedure for reporting unauthorised, irregular, fruitless and wasteful expenditure	10
13.	Non-compliance	12
14.	Adoption of policy	12
15.	Availability of policy on unauthorised, irregular, fruitless and wasteful expenditure	12
16.	Annual review of policy	12
Annexures		
A	Template - Register of Unauthorised, Irregular, Fruitless and Wasteful Expenditure	14
B	Template - Submission for condonation of Irregular Expenditure	15

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

AMENDMENT AND APPROVAL RECORD

Amendment No.	Amendment description	Originator	Approved By	Date

Name of CET College: Free State Community Education Training and College		
Unauthorised, Irregular, Fruitless and Wasteful Expenditure policy		
Department: Finance Responsibility : Accounting Officer		
<p><i>MA Matlawa</i></p> <p></p> <hr/> <p>Prepared and submitted by the Accounting Officer to Council</p> <p>Date: <u>23/01/2018</u></p>	<p><i>Mr F.R Sello</i></p> <p></p> <hr/> <p>Adopted by Council (Signed by Chairperson obo Council)</p> <p>Date: <u>24/01/2018</u></p>	<p>Implementation Date:</p>

1. Legislative framework and best practice regulations

Key principles contained in the following legislation and best practices were applied to develop this policy:

- a) CET Act No.16 of 2006, as amended (the "Act") (formerly the ABET Act)
- b) Public Finance Management Act, 1999 (Act No 1 of 1999, as amended by Act 29 of 1999) (PFMA);
- c) National Treasury Regulations, March 2005; and
- d) [Draft] National Treasury Regulations Gazette No. 35939 dated 30 November 2012.

The following College Codes and DHET recommended policies have a bearing on this policy:

- a) Code of Conduct for Employees;
- b) Code of Conduct for the College Council; and
- c) Supply Chain Management Policy.

2. Purpose

The purpose of this policy is to:

- 2.1 provide clarity on the procedures to be followed when dealing with unauthorised, irregular, fruitless and wasteful expenditure.
- 2.2 ensure that effective, efficient and transparent systems of financial and risk management, and internal control are in place and operating as intended to.

3. Definitions, acronyms and abbreviations

For the purpose of this policy, unless the context indicates otherwise, the following definitions, acronyms and abbreviations are set out for the terms indicated:

- 3.1 "**Accounting Officer**" – is the College Principal.
- 3.2 "**Act**" – is the CET Act No.16 of 2006, as amended.
- 3.3 "**College**", "**CETC**" – is a Community Education and Training College.
- 3.4 "**Condonation**" – the act of condoning or the overlooking or implied forgiveness of an offense.
- 3.5 "**Cost centre**" – a distinctly identifiable department, division or unit of the College, for which it is desirable to accumulate and track costs, e.g. a campus or a central office unit, where managers are responsible for all its associated costs and for ensuring adherence to its budgets.

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

- 3.6 “**Council**” - is the governing body of the College as defined by the Act.
- 3.7 “**Department**”; “**DHET**” – is the Department of Higher Education and Training.
- 3.8 “**Employee**”- is any official, employed by the College, irrespective of grade, full-time or part-time, Council or Departmental appointed and paid on a salaried or hourly/daily individual basis.
- 3.9 “**Fruitless and Wasteful expenditure**” - means expenditure which was made in vain and would have been avoided had reasonable care been exercised, by the Employees requesting and finally approving the expenditure.
- 3.10 “**Irregular expenditure**” – is expenditure that is contrary to the Act or any applicable legislation, or any regulations made in terms of the Act, or is in contravention of the College Supply Chain Management Policy, or any other Policy of the College. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.
- 3.11 “**Minister**” – is the Minister for Higher Education and Training.
- 3.12 “**SCM**” – refers to Supply Chain Management.
- 3.13 “**Unauthorised expenditure**” - means the overspending of an approved budget without the necessary approval(s) per the delegated limits, or expenditure incurred not in accordance with the purpose of a cost centre.

4. Scope

This policy is issued under the authority of the Council of the College and is applicable to all college management and employees. In particular the Accounting Officer, Deputy Principal – Finance, Campus Managers and SCM unit play a significant role in the identification and resolving of Unauthorised, Irregular, Fruitless and Wasteful expenditure at the College.

5. Principles of irregular expenditure

5.1 The following are examples of Irregular expenditure:

- 5.1.1 purchases exceeding thresholds;

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

- 5.1.2 procuring without inviting competitive bids;
 - 5.1.3 non-compliance with the College Supply Chain Management policy, other than 5.1.2 above;
 - 5.1.4 non-compliance with delegations of authority; and
 - 5.1.5 non-compliance with applicable legislation or regulations issued from applicable legislation.
- 5.2 For the purposes of determining whether irregular expenditure has taken place, there must be a transgression of a provision contained in applicable legislation, or any adopted internal policy, procedure and instruction that has or have been issued by the College Council.
- 5.3 For Irregular expenditure to be incurred, the non-compliance must be linked to a financial transaction. Although a transaction or an event may trigger irregular expenditure, the College will usually identify Irregular expenditure only when a payment is made. If “possible Irregular expenditure” is determined prior to a payment being made, then the transgression shall be regarded as a non-compliance matter until payment is made and Irregular expenditure is recognised.
- 5.4 Non-compliance with legislation other than the Act, which is applicable, shall not necessarily be regarded as Irregular expenditure, unless the expenditure, i.e. actual payments, related to such non-compliance is inconsistent with any prescripts of the legislation. The irregularity relates to how the transaction was entered into and by whom as opposed to when the transaction was processed.
- 5.5 Expenditure resulting from non-adherence to the College’s Delegation of Authority Framework and policies is regarded as Irregular expenditure since such delegations and policies are adopted by the Council.
- 5.6 The Irregular Expenditure Register must be updated throughout the process until the case is finally closed (Refer to *Annexure A* for a template of a Register of Unauthorised, Irregular, Fruitless and Wasteful expenditure).

6 Condonation of irregular expenditure

- 6.1 Irregular expenditure which is identified and confirmed may be considered for condonation by the College Council.
- 6.2 For the purpose of condonation, a detailed submission must be submitted to the Council requesting condonation for non-compliance with the Act or any other applicable legislation or internal policy. A request for condonation may be submitted only when good cause is shown for such condonation.
 - 6.2.1 A submission for condonation must contain:

- a) a detailed motivation as to why the Irregular expenditure in question should be considered for condonation; and
 - b) a description of remedial steps taken to avoid the reoccurrence of this type of Irregular expenditure.
- 6.2.2 A submission for condonation must include the following (refer to *Annexure B* for a template for submission for condonation of Irregular expenditure):
- a) Purpose;
 - b) Background;
 - c) Applicable legislative framework;
 - d) Motivation for condonation;
 - e) Remedial steps to prevent re-occurrence;
 - f) Financial implications;
 - g) Personnel implications;
 - h) Parties consulted; and
 - i) Recommendations.
- 6.3 In the event of an approval of the condonation of Irregular expenditure by the Council, no further action is required by the College, as the amount has been expensed in the statement of financial performance. The College Irregular Expenditure Register (*Annexure A*) must be updated to reflect the condonation of the Irregular expenditure.
- 6.4 Dismissal of the submission for condonation of the Irregular expenditure or where condonation is not relevant, the College must determine if any person is liable in law for the Irregular expenditure and immediate steps must be implemented to recover such expenses from the person(s) found to be liable in law.
- 6.5 If the Irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme or expenditure item (no journal is passed) and be disclosed as such in the note to the financial statements, in addition to being expensed through the Statement of Financial Performance.
- 6.6 The Irregular Expenditure Register must be updated throughout the process until the case/incident is finally closed.

7 Principles of fruitless and wasteful expenditure

- 7.1 The following are examples of Fruitless and Wasteful expenditure:
- 7.1.1 Expenditure due to negligence, e.g. cancellation fees incurred for missing a flight;
 - 7.1.2 Interest on overdue accounts; and
 - 7.1.3 Penalties or fines paid.

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

- 7.2 Fruitless and Wasteful expenditure is the responsibility of the Accounting Officer to deal with as prescribed.
- 7.3 The College Council should consider and make recommendations on how to resolve the matter if the Accounting Officer incurs the Fruitless and Wasteful expenditure.
- 7.4 After identification and confirmation of Fruitless and Wasteful expenditure, it should be captured on the financial system. (An expense account – “Fruitless and Wasteful Expenditure” should be opened in the Chart of Accounts).
- 7.5 It must be determined if any official(s) is/are liable in law for the Fruitless and Wasteful expenditure and immediate steps must be taken to recover such expenses from the official(s) found to be liable in law.
- 7.6 The Fruitless and Wasteful Expenditure Register must be updated throughout the investigation process until the case is finally closed (*Annexure A*).

8. Principles of unauthorised expenditure

- 8.1 The following are examples of Unauthorised expenditure:
 - 8.1.1 Overspending on budget;
 - 8.1.2 Earmarked funds used for other purposes; and
 - 8.1.3 Funds used outside the mandate of the College.
- 8.2 The College must only spend funds provided and only for the purposes for which they were provided. Overspending on the budget is normally identified before final closure of the College general ledger and after final transfer of funds between budget lines (i.e. virements).
- 8.3 Funds not utilised for the purpose intended within the budget should be identified timeously.
- 8.4 After identification and confirmation, Unauthorised expenditure is recognised as a current asset in the statement of financial position until such time as the expenditure is either adopted/noted by the Council, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.
- 8.5 Unauthorised expenditure approved prior to approved funding being received, is recognised in the statement of financial position when the unauthorised expenditure is approved and until the related funds are received.

- 8.6 Unauthorised expenditure approved without funding is recognised in the statement of financial performance as expenditure on the date of approval.
- 8.7 Unauthorised expenditure must be disclosed as a note to the annual financial statements in accordance with Section 9.1.5 of National Treasury Regulations (March 2005).
- 8.8 The Unauthorised Expenditure Register must be updated throughout the investigation process until the case is finally closed (*Annexure A*).

9. Expenditure classified as both unauthorised and irregular

- 9.1 If the College carries out a transaction that contravenes legislation, the transaction meets the definition of Irregular expenditure. The same transaction may be outside the mandate of the College or may cause overspending on a programme or a budget which meets the definition of Unauthorised expenditure.
- 9.2 A transaction of this nature must not be accounted for as both Unauthorised and Irregular expenditure. Unauthorised expenditure takes precedence over Irregular expenditure and, in this instance, the transaction shall be accounted for as Unauthorised expenditure.

10. Recovery of expenses from officials liable in law

- 10.1 The College Council shall seek legal advice as to the recoverability of the losses incurred by the College staff, due to Unauthorised, Irregular, Fruitless and Wasteful expenditure.
- 10.2 If no official is found to be liable in law, the expenditure related thereto must remain against the relevant programme or expenditure item (without journal adjustment) and be disclosed as such in the note to the financial statements, in addition to being expensed through the Statement of Financial Performance.
- 10.3 If it is confirmed that recovery from a liable official is not possible, the Council may write off the amount as a bad debt as contemplated by section 11.4 of National Treasury Regulation (March 2005), and this must be disclosed as such in the financial statements.

11. Appointment of loss control function

- 11.1 The best practices in terms of section 38(1) (c) (ii) of the PFMA, require the Accounting Officer to take effective and appropriate steps to prevent

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

Unauthorised, Irregular, Fruitless and Wasteful expenditure and losses resulting from criminal conduct. The College adopts this principle.

- 11.2 The function of Loss Control Officer shall be with the Deputy Principal: Finance or his/her nominated Employee. The Accounting Officer will specify to whom that authority is delegated.
- 11.3 The duties and responsibilities of the Loss Control Office are as follows:
- 11.3.1 Obtain all details and statements pertaining to reported cases of Unauthorised, Irregular, Fruitless and Wasteful expenditure and capture such reported cases in the appropriate register.
 - 11.3.2 Report all the cases noted in paragraph 11.3.1 to the Accounting Officer and Council.
 - 11.3.3 Investigate and follow up on all reported cases without delay.
 - 11.3.4 Report all finalised cases and provide recommendations to the Accounting Officer and Council.
 - 11.3.5 Ensure that authorisations among the delegated powers for the payment of claims or the writing-off of damages are correct, complete and in accordance with the responsibilities and delegation of powers by the College Council.
 - 11.3.6 Record all cases in the appropriate register and ensure that the register is kept up to date.

12. Procedure for reporting unauthorised, irregular , fruitless and wasteful expenditure

The procedure for reporting and investigation Unauthorised, Irregular, Fruitless and Wasteful expenditure is as follows:

- 12.1 Any Employee who becomes aware or suspects the occurrence of Unauthorised, Irregular, Fruitless and Wasteful expenditure must immediately report such expenditure in writing to the Accounting Officer or his or her delegate and the Deputy Principal – Finance. Further the Accounting Officer must inform the College Council of all reported cases.
- 12.2 The identification and reporting of Unauthorised, Irregular, Fruitless and Wasteful expenditure may also result from the various assurance processes, i.e. internal audit, external audit, compilation of the annual financial statements or normal inspections.
- 12.3 On identification of alleged Unauthorised, Irregular, Fruitless and Wasteful expenditure, such expenditure must be maintained in the appropriate expense account.

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

- 12.4 The Deputy Principal: Finance must investigate the matter without delay to determine the validity thereof, i.e. whether it meets the definition of Unauthorised, Irregular or Fruitless and Wasteful expenditure, and whether the accounting treatment applied is appropriate.
- 12.5 Managers should assist and co-operate with the Deputy Principal: Finance in every aspect of an investigation.
- 12.6 The Deputy Principal: Finance must immediately notify the Accounting Officer of progress with and the outcome of an investigation. Notification must be in the form of a written report, accompanied by supporting documentation.
- 12.7 The Loss Control Office must immediately record details of reported cases in the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register.
- 12.8 For each reported case, the central Loss Control Office must open a case file containing all the evidence and reports received.
- 12.9 The Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register must be:
- 12.9.1 available at all times for inspection and audit purposes;
 - 12.9.2 kept in a safe place and protected against fire, water and damage;
and
 - 12.9.3 maintained in electronic format.
- 12.10 Progress with and the outcome of each investigation must be updated continually in the relevant register by the Loss Control Office.
- 12.11 During the period of investigation, the expenditure must remain in the expense account and the result of the investigation will determine the appropriate action to be taken regarding that expenditure.
- 12.12 Should the investigation reveal that the expenditure does not constitute Unauthorised, Irregular, Fruitless and Wasteful expenditure and is in fact valid expenditure, the details of the expenditure should be retained in the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register for the purpose of completeness and to provide an appropriate audit trail. The accounting treatment for the expense must be corrected.
- 12.13 The Deputy Principal – Finance must monitor reported cases until such cases have been resolved.
- 12.14 The Deputy Principal – Finance or his/her delegated authority must update the relevant Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register and case files throughout the process until such cases are closed.

Department of Higher Education and Training
Free State Community Education Training and College
Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

- 12.15 If the investigation indicates that the expenditure is Unauthorised, Irregular or Fruitless and Wasteful, the particulars of the expenditure must be reported to the College Council, via the Accounting Officer.
- 12.16 The completeness of and amendments to the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register must be reported by the Deputy Principal – Finance to the Accounting Officer and the College Council.
- 12.17 The Deputy Principal – Finance should compile statistics of Unauthorised, Irregular, Fruitless and Wasteful expenditure on an annual basis in order to identify trends such as risk areas, control weaknesses and areas of non-compliance.
- 12.18 Unauthorised, Irregular, Fruitless and Wasteful expenditure must be accounted for and disclosed in the annual financial statements.

13. Non-compliance

Non-compliance with this policy will result in appropriate disciplinary procedures being considered and, if necessary, instituted against the relevant official(s).

14. Adoption of policy

This policy is effective from the date on which it is adopted by the Council.

15. Availability of policy on unauthorised, irregular, fruitless and wasteful expenditure

A copy of this policy and other relevant documentation should be made available on the College website.

16. Annual review of policy

This policy will be subject to an annual review by College management to ensure its relevance. Colleges should forward any inputs and recommendations to the CET Branch of DHET for possible consideration during the annual review process.

Any recommended changes agreed to by the Department to the Unauthorised, Irregular, Fruitless and Wasteful Expenditure policy should be presented to the College Council for adoption.

Department of Higher Education and Training
 Free State Community Education Training and College
 Recommended Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Annexure 10

ANNEXURE B: TEMPLATE - SUBMISSION FOR CONDONATION OF IRREGULAR EXPENDITURE

INTERNAL MEMORANDUM

TO:	From:
	Telephone:
	Enquiries:
	Ref:
	Date:

1. Purpose of submission:
2. Background to irregular expenditure that occurred (date, place, person [s] involved, details, amount[s] paid):
3. Applicable legislative framework:
4. Motivation for condonation:
5. Remedial steps to prevent re-occurrence:
6. Financial and accounting implications:
7. Personnel implications:
8. Parties consulted:
9. Recommendations:

Manager **Date**.....

Recommended/Not Recommend

Deputy Principal- Finance **Date**.....

Recommended/Not Recommend

Approved / Not approved

Accounting Officer..... **Date**.....

